

Feb-02-99 04:39P Wilson Downhole Svs.

616-947-2978

P.02

SMITH DRILLING & COMPLETIONS

A Business Unit of Smith International, Inc.

220 E. 16th Street
Post Office Box 504
Traverse City, Michigan 49685

Tel: 616/947-2977
Fax: 616/947-2978

February 2, 1999

Mr. Robert Hartlaub
U.S. Steel Mining Co., LLC
Room 2568, 600 Grant Street
Pittsburgh, PA 15219-2749

Dear Mr. Hartlaub:

It has been brought to my attention by Smith Drilling & Completion's credit department that U.S.S. has an outstanding balance of \$227,924.73. This account has been referred back to our office for review.

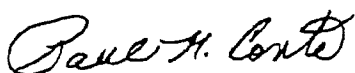
After reviewing the spreadsheets from Dave Trader, which we used for negotiations, several items were not paid and prices were reduced from the original bid prices.

The attached information sheets explain the discrepancies that we feel were not paid the proper amounts per each well in the amount of \$165,821.70.

After your review of this information, please contact Wilson Downhole Services so that we may resolve this matter.

Thank you in advance for you assistance and cooperation in this matter.

Respectfully,



Paul F. Conti
Senior District Manager
SDC/Wilson Downhole Services

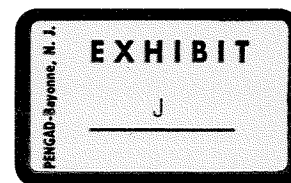
cc: Dave Trader

 **HOUSTON ENGINEERS**

▼ DRILLING TOOLS

▼ FISHING TOOLS

▼ WILSON DOWNHOLE SERVICES



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US Steel Mining Co. DW-7

Wilson Downhole Services
Billed: \$418,562.87U.S. Steel Mining Co.
Paid: \$339,042.00

Balance Due: \$79,520.87

Bid (see attached) non-drilling day rate @ \$350/hr.

*4/28 Conf. Call*Non-drilling day rate for February 25, 1998: 24 hr. @ \$350/hr. = \$8400.00 ^{#16,800}

Non-drilling day rate for February 26, 1998: 24 hr. @ \$350/hr. = \$8400.00

Wilson Downhole Services was not paid for these 2 days.

This is listed as N/C due to rigging up. Wilson Downhole Services billed these days as non-drilling days because we were called to the well site with the rig, but the location was too small to accommodate the rig. US Steel was required to "provide a suitable drilling location for the rig." A rig layout sketch with the size requirements was furnished prior to the rig move. Therefore, Wilson Downhole Services was on site for 2 days while the location was modified so the rig could be rigged up to begin drilling operations.

*6/5 Conf. Call
No agreement w/ JSZ*

2. Referring to the P.O., the footage rate in the coal is \$10.95/ft. and the day rate drilling beyond 3000' MD is \$800/hr. The coal drilled on DW-7 was 8889' and ^{#25,031} Wilson Downhole Services was paid for only 6603' of coal, with an unpaid balance due on 2286' @ \$10.95/hr. or \$25,031.70. ^{#800/hr + 3K'}

6/9 Conf. Call

3. Per the bid sheet, there is a non-drilling day rate of \$350/hr. (we were not required to quote a stand-by rate). On March 13 & 14, 1998 we were paid 45 hr. ^{#7,875} @ \$175/hr, which is \$7875.00. The balance due is 45 hr. @ \$175/hr. or \$7875.00.

The total of the 3 items we feel there is a balance due on are:

1. \$16,800.00
2. \$25,031.70
3. \$7,875.00

\$49,706.70 Balance Due

} *USM - '0'*

The difference between the total outstanding balance of \$79,520.87 and the balance due of \$49,706.70 is \$29,814.17. We feel that the discrepancy in drilling hours is due to drilling out of the coal and the hours to sidetrack for the additional coal legs.

It is our position that the balance of \$49,706.70 is due Wilson Downhole Services to settle this discrepancy on well DW-7.

*6/5 - Last Comm.
*
Agreement*

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US Steel Mining Co. DW-8

Wilson Downhole Services
Billed: \$540,528.00U.S. Steel Mining Co.
Paid: \$441,074.00

Balance Due: \$99,454.00

7714? 1. The total coal footage drilled on DW-8 was 10,917'. The total coal footage paid was 8149', paid @ \$10.95/ft. = 89,231.55. The agreed price per Mary Ann was @ \$10.95/ft. in the coal. Wilson Downhole Services was not paid for 2768' of coal @ \$10.95/ft. for a balance due of \$30,309.60. *800/Hr + 312' Drilling

2. When our tools were brought back from the US Steel location, the following items (with replacement values listed) were not returned and have, to this date, not been recovered.

CHP?	Thread Protectors	\$2640.00
CHP?	Rotary Sub	\$1398.00
?	Misc. Third Party	\$ 218.40
	Balance Due	\$4256.40

DW6? } DGT TO check @ Sharon
your CHP? Mary Ann

3. Per the bid sheet, there is a stand by day rate of \$550/hr. Our bill for stand by time on this well was 72 hours @ \$550/hr. = \$39,600.00. We were paid 72 hours @ \$175/hr. = \$12,600.00. The balance due is 72 hr. @ \$375/hr. or \$27,000.00.

The total of the 3 items we feel there is a balance due on are:

1. \$30,309.60
2. \$ 4,256.40
3. \$27,000.00

\$61,566.00 Balance Due - usm - '0'

The difference between the total outstanding balance of \$99,454.00 and the balance due of \$61,566.00 is \$37,888.00. We feel that the discrepancy in drilling hours is due to drilling out of the coal and the hours to sidetrack for the additional coal legs.

It is our position that the balance of \$61,566.00 is due Wilson Downhole Services to settle this discrepancy on well DW-8.

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US Steel Mining Co. DW-9

Wilson Downhole Services
Billed: \$315,692.00

U.S. Steel Mining Co.
Paid: \$266,742.00

Balance Due: \$48,950.00

- # 800/hr 136'*
1. The total coal footage drilled on DW-9 was 8134'. The total coal footage paid was 5892', paid @ \$10.95/ft. = 64,517.40. The revised bid was for \$12/ft. in the coal - 8134' @ \$12/ft = \$97,608.00. The agreed price per Mary Ann was @ \$10.95/ft. in the coal. Wilson Downhole Services was not paid for 2242' of coal @ \$10.95/ft. for a balance due of \$24,549.00.

The difference between the total outstanding balance of \$48,950.00 and the balance due of \$24,549.00 is \$24,401.00. We feel that the discrepancy in drilling hours is due to drilling out of the coal and the hours to sidetrack for the additional coal legs.

It is our position that the balance of \$24,549.00 is due Wilson Downhole Services to settle this discrepancy on well DW-9.

↑
up to 3K'
then #800/hr after
3K'
87.25 hrs @ 800/hr =
70,200

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Typical Well Cost:

Category	Item	Quantity	Unit	Price	Cost
Well	Mobilization	1	ea	30,000	\$60,000
Curve	Day Rate, Drilling	48	hr 365	Day Rate 2	\$17,520
Curve	Footage Drilling, Rock	220	ft 91.25	Day Rate 2 * 0.250	\$20,075
Leg 1	Day Rate, Drilling	72	hr 365	Day Rate 2	\$26,280
Leg 1	Footage Drilling, Coal	3000	ft 10.95	Day Rate 2 * 0.030	\$32,850
Leg 2	Day Rate, Drilling	72	hr 365	Day Rate 2	\$26,280
Leg 2	Footage Drilling, Coal	3000	ft 10.95	Day Rate 2 * 0.030	\$32,850
Leg 3	Day Rate, Drilling	72	hr 365	Day Rate 2	\$26,280
Leg 3	Footage Drilling, Coal	3000	ft 10.95	Day Rate 2 * 0.030	\$32,850
Well	Day Rate, Non-Drilling	24	hr 350	Day Rate 1	\$ 8,400
Well	Third Party	1	lot 8%	Cost * Factor	\$40,000*

*Estimate

**Moving to subsequent locations: \$8,000.00

"Note: Any items not listed in the three above categories shall be the sole responsibility of the bidder, except if explicitly noted on the bid form."

1. String Shot for Explosives
2. Equipment for Blasting Materials
3. Transportation of Blasting Equipment
4. Plug Backs
5. Gyroscopic Surveys
6. Any additional equipment requested by the operator, not specified to the bidder, will be at the operator's expense.

***For the typical well cost, the day rate, including all services, is \$800/hr. Per our conversation, applying the footage charge, our day rate is \$375/hr. plus the calculated price per foot as listed.

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DAVE Trailer 10 pgs

Category	Item	Quantity	Unit	Price	Cost
Well	Mobilization	1	ea.	Mob rate 2	
Curve	Day Rate, Drilling	48	hr. 400	Day rate 2	\$19,200.00
Curve	Footage Drilling, Rock	220 MD	ft. 100	Day Rate 2 * 0.250	\$22,000.00
Leg 1	Day Rate, Drilling	90	hr. 400	Day Rate 2	\$36,000.00
Leg 1	Footage Drilling, Coal	3000 MD	ft. 12	Day Rate 2 * 0.030	\$36,000.00
Leg 2	Day Rate, Drilling	90	hr. 400	Day Rate 2	\$36,000.00
Leg 2	Footage Drilling, Coal	3000 MD	ft. 12	Day Rate 2 * 0.030	\$36,000.00
Leg 3	Day Rate, Drilling	90	hr. 400	Day Rate 2	\$36,000.00
Leg 3	Footage Drilling, Coal	3000 MD	ft. 12	Day Rate 2 * 0.030	\$36,000.00
Well	Day Rate Non-Drilling	24	hr. 550	Day Rate 1	\$132,000.00
Well	Third Party	1	lot	Cost * Factor 8%	

*** Moving to subsequent locations: \$8,000.00

Note: Any items not listed in the three above categories shall be the sole responsibility of the bidder, except if explicitly noted on the bid form.

1. String Shot for Explosives
2. Equipment for Blasting Materials
3. Transportation of Blasting Equipment
4. Plug Backs
5. Gyroscopic Surveys
6. Any additional equipment requested by the operator, not specified to the bidder, will be at the operator's expenses.

***For the typical well cost, the day rate, including all services, is \$850.00 per hour. Per our conversation, applying the footage charge, our day rate is now \$400.00 per hour, plus the calculated price per foot as listed.

Effective March 13, 1998